

VS Industry (VSI MK)

Value Emerges After The Fearful Selldown

Highlights

- While the recent selldown reflects a higher risk premium amid investor caution over key shareholder stake disposals and weaker report cards from EMS peers, the extent of the share price capitulation appears overdone.
- Value re-emerges; trading at 13.0x FY26F PE (after earnings cut; -0.75SD below seven-year mean) and 0.96x FY26 PBV (-2SD), levels near the troughs last seen during the MCO lockdown (0.83-0.88x). 4QFY25 may undershoot but 1QFY26 should rebound on festive demand and trade diversion tailwinds.
- Despite a double burn down scenario (FY25/FY26 earnings -37%/-24% with a lower PE ascribed), valuations still imply ample upside for a BUY call. Target price: RM0.82.

Analysis

- Value emerged following fearful selldown.** VS Industry (VS), which recently saw share disposals by key management members, plunged to as low as RM0.54 over the past two weeks (-17% from early-Sep 25) before rebounding to RM0.605 at the time of writing. Although we acknowledge the need for valuation adjustment reflective of a higher risk premium (on investor caution following the stake paring and weaker report cards by its EMS peers), we believe the magnitude of the selldown could have been overdone. At RM0.605, VS trades at 8% below its second trough during the peak of the reciprocal tariffs, at 13.0x FY26F PE (on our new conservative forecast; -0.75SD below its seven-year mean forward PE) and 0.96x FY26 PBV (-2SD) levels close to those seen during the MCO lockdown (0.83-0.88x).
- 4QFY25 earnings likely to undershoot.** Most EMS players have recently reported weaker-than-expected results dragged by post-Liberation Day operational disruptions and inefficiencies from suboptimal customer loadings, particularly from US clients and white goods. Sector guidance has also been generally uninspiring, clouded by tariff uncertainties which, in our view, could dampen consumer demand and compress margins in the near term. Taking cues from peers, we believe these headwinds may also weigh on VS' 4QFY25 earnings (May-July), which coincided with the peak of tariff disruptions. With 40-50% revenue exposure to the US, VS appears more vulnerable in this environment. On a conservative stance, we now forecast 4QFY25 revenue/core earnings at RM545m-636m/RM3.2m-4.8m, assuming: a) a sequential revenue decline of 30-40%; and b) net profit margin at 1.7% as base (lowest in the past eight quarters), further declining by about RM6m from the quarterly burn rate from HTPW and Philippines operations.

Key Financials

Year to 31 Jul (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	4555	4248	3473	4295	5022
EBITDA	412	413	255	399	454
Operating profit	292	287	135	271	325
Net profit (rep./act.)	196	246	73	183	224
Net profit (adj.)	200	210	73	183	224
EPS	5.0	6.3	1.9	4.7	5.7
PE	11.9	11.3	32.6	13.0	10.6
P/B	1.1	1.0	1.0	1.0	0.9
EV/EBITDA	6.5	6.1	8.9	5.9	5.3
Dividend yield	3.6	3.1	0.9	2.3	2.8
Net margin	4.3	5.8	2.1	4.3	4.5
Net debt/(cash) to equity	7.7	-5.8	-6.1	-5.1	1.2
Interest cover	14.2	22.5	9.0	14.1	16.0
ROE	9.2	11.1	3.1	7.6	9.0
Consensus net profit			115	214	269
UOBKH/Consensus (x)			0.63	0.86	0.83

Source: VS Industry, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM0.605
Target Price	RM0.82
Upside	35.5%

Analyst(s)

Desmond Chong

desmondchong@uobkayhian.com

+603 2147 1980

Stock Data

GICS sector	Information Technology
Bloomberg ticker:	VSI MK
Shares issued (m):	3,947.7
Market cap (RMm):	3,388.4
Market cap (US\$m):	806.8
3-mth avg daily t'over (US\$m):	5.1

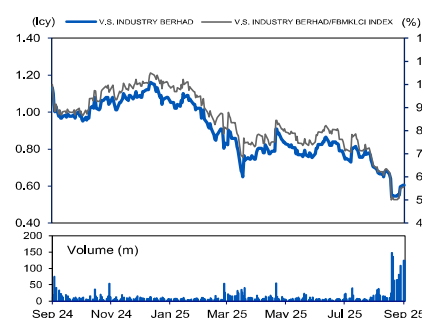
Price Performance (%)

52-week high/low		RM1.16/RM0.540		
1mth (13.6)	3mth (22.4)	6mth (27.1)	1yr (46.9)	YTD (47.8)

Major Shareholders

	%
Employees Provident Fund	9.8
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4

Price Chart



Source: Bloomberg

COMPANY DESCRIPTION

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Near-term headwinds to persist, but could gradually ease.** We expect the consumer EMS industry outlook - structurally tied to white goods demand and operating on relatively thinner margins, to remain challenging as the 19% tariff continues to elongate end-customer spending cycles, thereby slowing order flows. VS, with around 50% of revenue exposure to US customers, could appear particularly vulnerable. To reflect this, we trim our FY26 earnings forecast by 24%, factoring in weaker margins and softer loadings mainly from US clients. That said, we anticipate a sequential stronger 1QFY26, underpinned by festive-season restocking and order backloading. Looking beyond, potential trade diversion benefits could act as a structural anchor, setting the stage for longer-term growth resilience for VS.
- **New foray – a major rerating.** VS continues to attract interest from new MNC customers thanks to the entrenched ecosystem in Malaysia, with discussions on potential contracts currently in the early evaluation stages. Among these opportunities, a meaningful collaboration with a medical industry customer appears imminent. While the group has already initiated PCB assembly operations for this medical client, we are not including any new contract wins in our projections at this point. In terms of sensitivity analysis, securing a RM300m contract with full contribution in FY26 on a net margin of 4.3% could lead to an earnings accretion of 6%.

Valuation/Recommendation

- Maintain BUY with a lower target price of RM0.82, based on a lower 16x 2026F PE (-0.5SD below average seven-year forward PE, from 18x). While conservative, this valuation reflects a prudent stance amid the near-term headwinds, and continues to offer decent upside potential.

Earnings Revision/Risk

- On a conservative stance, we cut our FY25 earnings by 37%, assuming 4QFY25 revenue/core earnings at RM545m-636m/RM3.2m-4.8m, on the assumptions of: a) a sequential revenue decline of 30-40%; and b) net profit margin at 1.7% as base (lowest in the past eight quarters), further declining by about RM6m from the quarterly burn rate from HTPW and Philippines operations.
- We are also cutting our FY26 earnings forecast by 24% to account for lower loadings and margin assumptions.

Environmental, Social, Governance (ESG) Updates

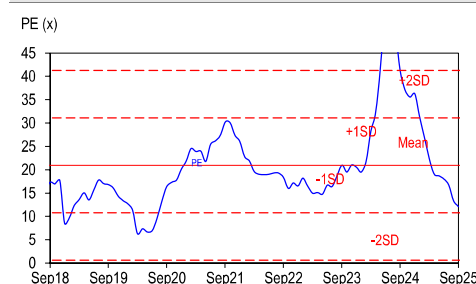
• Environmental - VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products. • Social - VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce. - It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia. • Governance - The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Sales Assumption

(RMm)	FY23	FY24	FY25F	FY26F
Sales	4,555	4,248	3,473	4,295
Key customer	2,480	2,007	1,988	2,563
Customer Z	400	400	352	334
China	72	30	30	40
Indonesia	344	350	333	349
New key customers	1000	1070	400	600
Others	259	391	372	409
US\$/RM	4.51	4.40	4.30	4.30
Core net margin (%)	4.4%	4.9%	2.1%	4.3%

Source: UOB Kay Hian

Seven-Year Forward PE Band



Source: UOB Kay Hian

Seven-Year Forward PBV Band



Source: UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2024	2025F	2026F	2027F
Net turnover	4248	3473	4295	5022
EBITDA	413	255	399	454
Deprec. & amort.	126	120	128	129
EBIT	287	135	271	325
Associate contributions	0	-3	3	3
Net interest income/(expense)	-18	-28	-28	-28
Pre-tax profit	269	104	245	299
Tax	-74	-32	-65	-79
Minorities	9	1	3	3
Net profit	246	73	183	224
Net profit (adj.)	210	73	183	224

Cash Flow

Year to 31 Jul (RMm)	2024	2025F	2026F	2027F
Operating	299.0	362.8	25.9	92.6
Pre-tax profit	269	104	245	299
Tax	(70)	(32)	(65)	(79)
Deprec. & amort.	126	120	128	129
Working capital changes	(36)	232	(217)	(190)
Non-cash items	(72)	(72)	(72)	(72)
Other operating cashflows	83	11	6	6
Investing	(183)	(115)	(115)	(115)
Capex (growth)	(147)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	8	0	0	0
Others	(44)	35	35	35
Financing	(49)	21	(12)	(24)
Dividend payments	(77)	(22)	(55)	(67)
Issue of shares	45	20	20	20
Proceeds from borrowings	0	0	0	0
Loan repayment	10	50	50	50
Others/interest paid	(28)	(28)	(28)	(28)
Net cash inflow (outflow)	67	269	(101)	(46)
Beginning cash & cash equivalent	689	755	1,024	922
Changes due to forex impact	8	0	0	0
Ending cash & cash equivalent	764	1,024	922	876

Balance Sheet

Year to 31 Jul (RMm)	2024	2025F	2026F	2027F
Fixed assets	903	933	955	976
Other LT assets	271	269	271	274
Cash/ST investment	755	1,024	922	876
Other current assets	2,148	1,752	2,096	2,408
Total assets	4,078	3,978	4,245	4,535
ST debt	337	337	337	337
Other current liabilities	828	678	819	955
LT debt	571	571	571	571
Other LT liabilities	49	49	49	49
Shareholders' equity	2,293	2,344	2,473	2,630
Minority interest	(0)	(2)	(4)	(8)
Total liabilities & equity	4,078	3,978	4,245	4,535

Key Metrics

Year to 31 Jul (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	9.7	7.3	9.3	9.0
Pre-tax margin	6.3	3.0	5.7	6.0
Net margin	5.8	2.1	4.3	4.5
ROA	6.1	1.8	4.5	5.3
ROE	11.1	3.1	7.6	9.0
Growth				
Turnover	(8.1)	(23.7)	33.1	62.4
EBITDA	0.3	(49.8)	79.5	109.3
Pre-tax profit	2.6	(79.8)	190.9	263.8
Net profit	31.0	(91.5)	211.9	289.1
Net profit (adj.)	4.7	(65.2)	151.4	21.9
EPS	5.6	(84.8)	211.9	289.1
Leverage				
Debt to total capital	39.6	38.8	36.8	34.6
Debt to equity	39.6	38.7	36.7	34.5
Net debt/(cash) to equity	6.7			1.2
Interest cover	22.5	9.0	14.1	16.0

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act 2001 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas ("PT UOBKH"), which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOB Kay Hian (M) Sdn. Bhd. ("UOBKHM") (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2025, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W